806 KAR 17:150. Health Benefit Plan Rate Filing Requirements.

RELATES TO:
1998 Ky. Acts ch. 496 secs. 1, 9-11, 15-23

STATUTORY AUTHORITY:
1998 Ky. Acts ch. 496, sec. 9(7)

NECESSITY, FUNCTION, AND CONFORMITY:
1998 Ky. Acts ch. 496, sec. 9(7) authorizes the commissioner to promulgate an administrative regulation to obtain relevant information for health benefit plan rate filings and to set forth the format of the filings. This administrative regulation establishes procedures for filing health benefit plan rates so the commissioner will have relevant information to approve or disapprove the rate filing.

Section 1. Definitions.

(1) "Base new business rate" means the premium rate for each product benefit plan for each class of business, prior to any adjustments for case characteristics or health status.

(2) "Base new business rate change" means:

(a) For a product benefit plan, the percentage change in the base new business rate measured from the first day of the prior rating period to the first day of the proposed rating period; and

(b) For a product within a market segment class of business, equal to the premium weighted average base new business rate change for all of the product benefit plans within that market segment class of business.

(3) "Base premium rate" is defined in 1998 Ky. Acts ch. 496, sec. 1.

(4) "Class of business" means all or a distinct grouping of small employers or individuals as shown on the records of the small employer or individual insurance carrier.

(5) "Date of filing" means the date the department confirms that the appropriate filing fee and all information required by this administrative regulation have been received by the department.

(6) "FFS" means a fee for service product type.

(7) "Guaranteed Acceptance Program" or "GAP" is defined in 1998 Ky. Acts ch. 496, sec. 1.

(8) "Health benefit plan region" or "geographic region" means each one of the eight allowable rating regions for health benefit plans identified in Form LH-33.

(9) "HMO" means a health maintenance organization product type.

(10) "Index rate" is defined in 1998 Ky. Acts ch. 496, sec. 1.

(11) "Large group" is defined in 1998 Ky. Acts ch. 496, sec. 1.

(12) "POS" means a point of service product type.

(13) "PPO" means preferred provider organization product type.

(14) "Small group" is defined in 1998 Ky. Acts ch. 496, sec. 1.

Section 2. Scope.

(1) A health benefit plan rate filing to which the standards of 1998 Ky. Acts ch. 496, sec. 9 apply, shall include the information required by this administrative regulation.

(2) The period of time in which the commissioner must affirmatively approve or disapprove the filing shall not begin until the date of filing.

(3) The insurer shall not use the proposed rates until the date of filing.

(4) The filing and fee shall not be deemed received until the department confirms that:

(a) All information required by this administrative regulation has been received; and

(b) The appropriate fee has been paid.

Section 3. Health Benefit Plan Rate Filing Procedures.

(1) The following shall be included and properly completed in a health benefit plan rate filing submission:

(a) Form LH-32, the Health Benefit Rate Filing Information Form;
(b) $100 filing fee or the domiciliary state fee, whichever is greater;
(c) Form LH-1, Face Sheet and Verification Form;
(d) Signed actuarial memorandum prepared in accordance with Section 6 of this administrative regulation;
(e) The Income and Expense Worksheet; and
(f) Certification Form LH-34.

(2) Two (2) copies of all written material shall be submitted to the department.

(3) One (1) copy of all written material shall be submitted to the Attorney General's Office by the insurer at the same time as the submission to the Department of Insurance.

(4) This shall include:
(a) An amendment;
(a) An update;
(b) Additional information; or
(c) A response to an inquiry from the department.

(5) The insurer shall provide a self-addressed, postage-paid envelope large enough to accommodate a return copy for notification of the commissioner's decision.

(6) One (1) copy of the annual report to shareholders or policyholders of the company shall be attached to the filing as an exhibit.

Section 4. Filing Format.

(1) A separate health benefit plan rate filing shall be submitted for each market segment as follows:
(a) Individual;
(b) Small group;
(c) Association;
(d) Employer-organized association; and
(e) Large group.

(2) A large group rate filing may include each product type offered as follows:
(a) FFS;
(b) PPO;
(c) POS; and
(d) HMO.

(3) A rate filing for a market segment other than large group may be submitted separately for each product type listed in subsection (2) of this section or in the following combinations:
(a) FFS and PPO; or
(b) POS, HMO, and PPO.

Section 5. Employer-organized Association Rate Filings.

(1) An employer-organized association rate filing shall include the name of each employer-organized association that generated the rating experience contained in the filing. Each employer-organized association that provides the insurer with written permission to have rates based on experience other than their own may have experience combined for rate determination. Proposed rates for a combination of associations shall be contained in one (1) filing.

(2) If an insurer is proposing to begin marketing a health benefit plan to the employer-organized association market segment, a rate filing may be based on the standard plan benefits, including appropriate formulas and rate factors within the limitations outlined in 1998 Ky. Acts ch. 496, sec. 11. The filing shall include:

(a) Factors for a plan likely to be offered; and
(b) A detailed description of the methodology for incorporating the actual experience of an employer-organized association in determining rates for that association.

(3) Within thirty (30) days of receiving written permission from an employer-organized association, the insurer shall submit two (2) copies of the written permission to the commissioner. The written permission shall include the following:

(a) A statement giving the insurer permission to rate the employer-organized asso ciation on experience other than the employer-organized association's own experience;
(b) Name, address, and telephone number of the employer-organized association giving permission to the insurer;
(c) Name, address, and telephone number of the insurer to which permission is given;
(d) Month, day, and year that permission is given to the insurer; and
(e) Number of eligible association members.

Section 6. Actuarial Memorandum.

(1) The actuarial memorandum for each rate filing shall be prepared in accordance with the following:
(a) American Academy of Actuaries Actuarial Standard of Practice No. 8, Regulatory Filings for Rates and Financial Projections for Health Plans; and
(b) Interpretative Opinion 3, Professional Communications of Actuaries.

(2) The actuarial memorandum for a rate filing, other than a large group rate filing, shall include the following:
(a) Qualifications of the signing actuary;
(b) A statement identifying when the company will begin using the proposed rates;
(c) A discussion of rate development which shall include a detailed explanation of the following:
1. The effects of each of the following mandated benefits which discussion shall include the percentage cost and actual dollars attributable to the rates and the number of policyholders who are affected:
a. Autism;
b. Cochlear implants;
c. Diabetes;
d. Cancer drugs;
e. Women's health; and
f. Hospice.
2. The claim cost development that shall include an explanation of the following:
a. Methodology;
b. Any assumption including the following:
(i) Trend;

(ii) Any benefit change;
(iii) Any utilization or cost-per-service change;
(iv) Any demographic change;
(v) Any change in medical management;
(vi) Any change in provider contracts;
(vii) Any other assumption used; and

c. Experience, including exposures or members, earned premium, paid claims, incurred claims and incurred loss ratio, for the last three (3) years for this product, or for a similar product if this filing is for a new product;

3. Development and printout of the base premium rates, index rates, corresponding highest premium rates and any applicable GAP premium rates for the standard plan option by age, gender, and tier combination using the lowest industry factor and the lowest area factor, and separately using the highest industry factor and the highest area factor. If the filing contains more than one (1) product, the information required by this subparagraph shall be provided for each product separately. For any filing containing proposed rates for more than (1) one class of business, the information required in this subparagraph shall be provided separately for each class of business.

4. Every factor for each case characteristic including age, gender, industry or occupation, and geographic region, with a separate summary of the maximum factor and the minimum factor for each case characteristic.

a. A health benefit plan region other than the eight (8) identified in Form LH-33 shall not be used for a geographic region factor adjustment.

b. Include any healthy lifestyle discount factor, along with an explanation of the determination of that factor, and where that factor is applicable;

5. The anticipated pricing loss ratio including a detailed justification of the following load factors:

a. The percentage allocated for the administrative expense assumption, with an explanation for any change from the factor used for existing rates. It shall be explained how these costs are allocated among each benefit plan design and attach demonstrative documentation as an exhibit;

b. The percentage allocated for the commission assumption with an explanation for any change from the factor used for existing rates;

c. The percentage allocated for federal, state and local government tax assumptions with an explanation for any change from the factor used for existing rates;

d. The percentage allocated for the investment income assumption with an explanation for any change from the factor used for existing rates;

e. The percentage allocated for the profit and contingency assumption with an explanation for any change from the factor used for existing rates; and

f. The percentage allocated for any other factor;

(d) Detailed explanation, with example, of the following:

1. The method for determining a small group composite rate;
2. When a small group composite rate is recalculated; and
3. The group size that is eligible for a composite rate calculation;

(e) Each health benefit plan description and the applicable benefit factor adjustment, or any other method of calculating rates for a different benefit plan if the method is not multiplicative, for each benefit plan to which this filing applies. If applicable, the two (2) individual GAP benefit plans, other than the Standard Benefit Plan, shall be identified. Any other benefit plan offered to a GAP participant shall also be identified.

(f) Detailed discussion of the manner in which the projected amount of net assessments and refunds under 1998 Ky. Acts ch. 496, secs. 21 and 22 is included in establishing the proposed rates in the filing as required by 1998 Ky. Acts ch. 496, sec. 9(6);

(g) Information regarding how fees are paid to providers as follows:

1. Justification of fees paid to providers in relation to the rate requested, including any assumption used regarding provider discounts in the rate filing; and
2. Average discount to providers during experience period and average discount for physician payments, hospital payments, laboratory payments, pharmacy payments, mental health payments and other payments for the rate filing period;

(h) If a trend rate is used, include the time period to which the trend applies and the applicable annual trend rate;

(i) Explanation of the anticipated effect of the requested rates on the current policyholders, subscribers, or enrollees;

(j) Information regarding each class of business which shall include:

1. Identification of each class of business;
2. Justification of each separate class of business; and
3. A demonstration that each index rate for the class of business with the highest index rates is within ten (10) percent of the corresponding index rate from the class of business with the lowest index rates; and

(k) Prospective certification of the following, which shall be filed as an attachment to the actuarial memorandum for a rate filing other than a large group filing, and signed by the qualified actuary who prepared and signed the actuarial memorandum:

1. That the information is prepared in accordance with American Academy of Actuaries Actuarial Standard of Practice No. 26, Compliance with Statutory and Regulatory Requirements for the Actuarial Certification of Small Employer Health Benefit Plans, applicable to the following markets:

a. Individual;
b. Association;
c. Employer-organized association; and
d. Small group business; and

2. That all the proposed rates are in compliance with 1998 Ky. Acts ch. 496, secs. 10, 11, and 19.

Section 7. Large Group Rate Filings.

(1) The actuarial memorandum for a large group rate filing shall include the following information:

(a) The information provided in Section 6(2)(a), (b), (c)1, (c)2, (c)5, (f), (g), (h) and (i);

(b) Development of rating basis including each adjustment for the following:

1. Age;
2. Gender;
3. Family composition;
4. Benefit plan;
5. Industry;
6. Healthy lifestyle; and
7. Any other adjustment;

(c) Any formula for new and renewal business including a definition of each term used in the formula;

(d) Credibility criteria used in conjunction with experience rating;

(e) Detailed explanation of any change in the manual rating formula or experience rating formula;

(f) Detailed explanation of any change in factors that would be used in any formula;

(g) Any periodic trend rate applied in the formula;

(h) The composite effect of any change in formula and formula factors; and

(i) Detailed explanation of any trend assumption used in experience rating.

(2) Certification Form LH-34 shall not be required for a large group rate filing.

Section 8. Material Incorporated by Reference:

(1) The following material is incorporated by reference:

(a) Form LH-32, "Health Benefit Plan Rate Filing Information Form (7/98 Edition)";

(b) Form F-1 LH, "Face Sheet and Verification Form (4/98 Edition)";

(c) Actuarial Standards of Practice No. 8, "Regulatory Filings for Rates and Financial Projects for Health Plans (Doc. No. 010, 1990 Edition)", American Academy of Actuaries;

(d) Actuarial Standard of Practice No. 26, "Compliance with Statutory and Regulatory Requirements for the Actuarial Certification of Small Employer Health Benefit Plans (Doc. No. 052, adopted October, 1996)", American Academy of Actuaries;

(e) Interpretive Opinion 3, "Professional Communications of Actuaries (1992 Edition)", American Academy of Actuaries;

(f) Income and Expense Worksheet (1998 Edition);

(g) Form LH-33, "Health Benefit Plan Regions (7/98 Edition)"; and

(h) Certification Form LH-34 (7/98 Edition).

(2) This material may be inspected, copied, or obtained at the Kentucky Department of Insurance, 215 West Main Street, Frankfort, Kentucky 40601, Monday through Friday, 8 a.m. to 4:30 p.m. (25 Ky.R. 718; Am. 1049; eff. 11-20-98).